

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY)
)
 Petition for declaration of service currently)
 provided under Rate 6L to 3 MW and greater)
 customers as a competitive service pursuant to) Docket No. 02 - _____
 Section 16-113 of the Public Utilities Act and)
 approval of related tariff amendments.)

Direct Testimony of

WILLIAM P. McNEIL

**Director of Strategic Planning
Exelon Energy Delivery Services
Commonwealth Edison Company**

and

JENNIFER T. STERLING

**Director of Tariff Administration
Transmission Policy Department
Commonwealth Edison Company**

July 2002

1 **Q. Please state your names and business addressees.**

2 A. William P. McNeil and Jennifer T. Sterling. Mr. McNeil's business address is 227 W.
3 Monroe, 9th floor, Chicago, IL 60606. Ms. Sterling's business address is 20 South Clark
4 Street, Suite 500, Chicago, Illinois 60603.

5 **Q. By whom are you employed and in what capacities?**

6 A. We are both employed by Commonwealth Edison Company ("ComEd"). Mr. McNeil
7 has recently been assigned the position of Director of Energy Acquisition and is
8 transitioning from his current duties as Director of Strategic Planning for Exelon Energy
9 Delivery Services. Ms. Sterling's title is Director of Tariff Administration in the
10 Transmission Policy Department.

11 **Q. Mr. McNeil, what will your duties and responsibilities be as ComEd's Director of**
12 **Energy Acquisition and what are your duties as Director of Strategic Planning for**
13 **Exelon Energy Delivery?**

14 A. As Director of Energy Acquisition, I will be primarily responsible for annual load
15 forecasting and procurement of wholesale energy to serve ComEd's retail load
16 requirements. As Director of Strategic Planning for Exelon Energy Delivery Services, I
17 develop long term strategies for the Energy Delivery Business unit, evaluate new
18 corporate development opportunities, and work to improve the financial performance of
19 the existing business.

20 **Q. Mr. McNeil, what is your educational background and professional experience?**

21 A. I hold a B.S.E.E. from Tri-State University and an MBA from Rosary College. I have
22 been employed, in various capacities, by ComEd for over 24 years. In my last position I

was the Director of Strategic Planning for Exelon Enterprises. In that position my duties and responsibilities were substantially the same as they are for my current position, except that in the former position I was focused on our unregulated ventures. Prior to that, I was Director of Marketing for ComEd with responsibilities for the large commercial & industrial customer segment as well as competitive pricing.

Q. Ms. Sterling, what are your current duties and responsibilities as ComEd's Director of Tariff Administration in the Transmission Policy Department?

A. As Director of Tariff Administration in ComEd's Transmission Policy Department, I am responsible for the interpretation and implementation of ComEd's open access transmission tariff ("OATT") which is on file with the Federal Energy Regulatory Commission ("FERC"). I participate in policy decisions regarding periodic and as-needed updates or changes to ComEd's OATT. I am involved with ComEd's efforts to participate in a Regional Transmission Organization ("RTO") and I have responsibility for many market design, tariff, and billing and settlement matters relating to this effort.

Q. Ms. Sterling, what is your educational background and professional experience?

A. I received a Bachelor of Science degree in Electrical Engineering in 1989 and a Master of Science degree in Electrical Engineering in 1990, both from the University of Illinois in Urbana-Champaign. I am a Registered Professional Engineer in the State of Illinois and a North American Electric Reliability Council Certified System Operator. After I received my Master's degree in 1990, I joined ComEd and have been continuously employed by ComEd since that time. In my immediately previous position I was Project Manager of ComEd's retail open access implementation team. The goal of that effort was to develop computer systems and business processes needed to implement retail open

access as required by the Electric Service Customer Choice and Rate Relief Law of 1997 (the “Restructuring Act”). Specifically, I was responsible for the design and implementation of the settlement system that calculates charges specified in ComEd’s OATT. In that position, I was also involved with the development of proposed changes to ComEd’s OATT to accommodate the retail open access market, and was involved in designing the tariff terms and business processes that, when required, allocate transmission charges among retail customers. In October 1999, I assumed the duties of my current position.

Q. What are the purposes of your panel testimony in this proceeding?

A. Our testimony has several purposes. Specifically:

1. In separate testimony, Paul Crumrine and Dennis Kelter have explained that commercial and industrial customers with electrical demands of 3 MW or more have exercised choice in the competitive market at terms and prices they found to be comparable to, or better than, their traditional bundled service tariff rate. In our testimony, we will discuss why these customers will continue to have access to reasonably equivalent service through Retail Electric Suppliers (“RESs”) at comparable prices into the future;
2. We will describe the current and projected availability of generation supply for RESs both within the ComEd service territory as well as within the Midwest region;
3. We will discuss how ComEd’s transmission system is capable of handling the competitive transactions associated with this customer segment, both now and into the future; and

4. We will discuss how ComEd's proposal will enhance competition for retail services, and why it is critical to the development of sustainable competition in the retail segment.

Q. Why do you believe the customers in the 3MW or greater class will continue to have access to comparable service at comparable prices from alternative suppliers?

A. The primary reason is that there is adequate supply and motivated sellers, at both the wholesale and retail level, who will compete for this load. This petition only impacts ComEd's largest 373 customers, who have a combined total coincident demand of approximately 2,500 MW. Of this demand, retail suppliers are already serving 950 MW, and 650 MW are being served under ComEd's Rider PPO – Purchase Power Option ("PPO"). This means that on an incremental basis, only 900 MW of load currently served under bundled rates would be transitioned to market based alternatives. There is significant amount of demand response within this 900 MW of load, further reducing the actual supply requirements of these customers by an additional 235 MW, and for many of these customers self-generation is an option as well. Our analysis will show that the available resources that will compete to serve this load far exceed 900 MW under the most conservative assumptions, and that there is sufficient competitive intensity in the energy market today to assure comparable prices into the future.

As is explained further below, substantial capacity has been built in the ComEd service area since the passage of the Restructuring Act. Although much of this has been peaking capacity (i.e., generation units designed to run primarily at the time that the electric system is experiencing peak demands), ComEd has also recently announced the release into the market of over 2,600 MW of capacity that it previously purchased from Midwest

91 Generation (“MWG”). This coal fired base and intermediate generation will now be
92 available to other market participants, including RESs. ComEd’s release of over 2,600
93 MW of generation capacity previously under contract from MWG will also provide
94 additional competitive sources of generation within the service territory. In the broader
95 region, which includes the Mid-American Interconnected Network (“MAIN”), the Mid-
96 Continent Area Power Pool (“MAPP”) to the west, and the East Central Area Reliability
97 Council (“ECAR”) to the east, there is currently 230,000 MW of total generating capacity
98 serving a peak demand of approximately 182,000 MW. While much of this capacity is
99 committed to serving the regulated, retail load obligations of utilities, many generation
100 owners are actively marketing power at wholesale as well.

101 As we will discuss further, both wholesale and retail marketers can develop products that
102 are supplied by a total portfolio that includes contracted resources. Also, as retail choice
103 continues to evolve, displaced load from one supplier frees up an equal amount of
104 capacity available to be marketed elsewhere. It is important to realize that although
105 buyers and sellers are changing the way they transact, the physical flow of electricity
106 over the grid is, for the most part, unaffected. Subject to the practical limitations of the
107 transmission grid and reliability considerations, generation efficiency and fuel cost still
108 drive production to be dispatched in economic order. The result is that the most efficient
109 generating units are running at any given point in time. With these conditions and with
110 approximately 4,700 MW of available import capability on the ComEd transmission
111 system (incrementally), there is more than enough accessible supply within the region to
112 assure comparable price levels within the service territory.

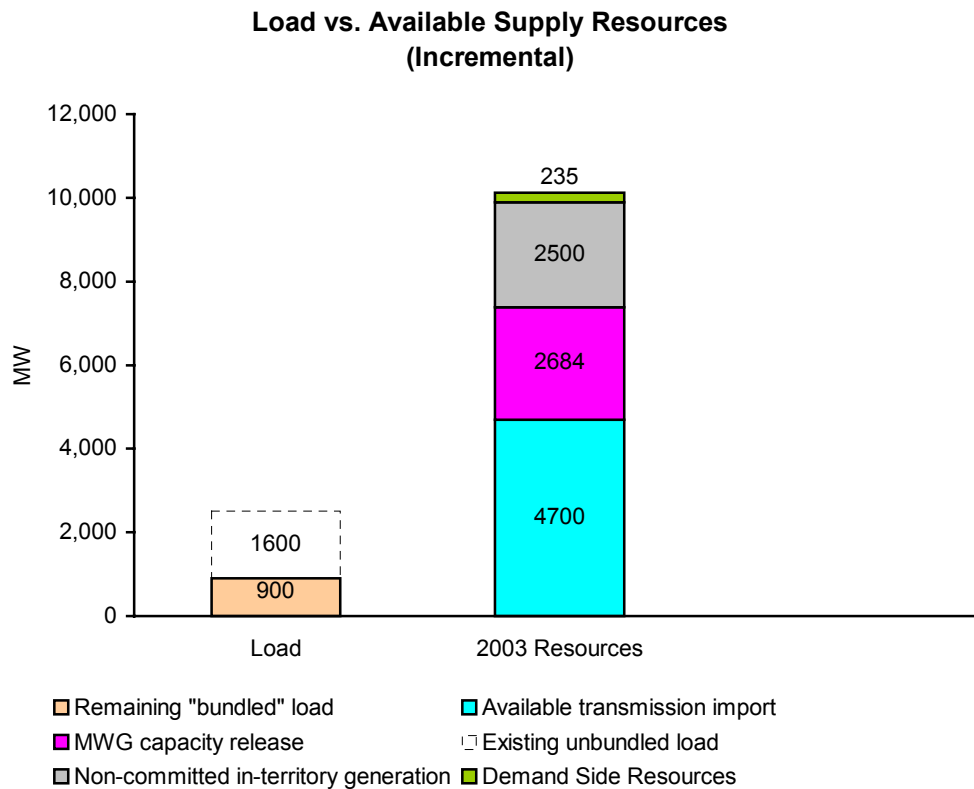
113 Finally, while we believe there is sufficient evidence to support a finding that service to
114 the 3MW and up customer segment is competitive today, the situation will only improve
115 with time. This is due to three reasons:

116 First, additional generation is under development in ComEd's service territory. While
117 much of what was on the drawing board may not be built, there is still a large amount of
118 capacity in the pipeline that will become operational. The developers involved have
119 made long-term investments in the Illinois market, and they have reasonable expectations
120 of a return. This will further heighten the competitive intensity within this market.

121 Second, ComEd has notified FERC of its intention to join PJM. We believe PJM will
122 provide substantial benefits to the continuing development of the retail market in Illinois.
123 ComEd witness John McCawley will discuss these benefits further in his testimony.

124 Third, although the resources to compete for the 3MW and up customer load are
125 available today, under this proposal, the affected customers (and, hence, their load) will
126 have up to three years to migrate to alternative sources of supply. This means the actual
127 load initially migrating will in all likelihood be significantly lower than the available
128 supply.

129 The following chart illustrates the numbers described above:



Q. You mentioned motivated sellers at the retail level. Why do you think this segment is particularly well suited for retail competition?

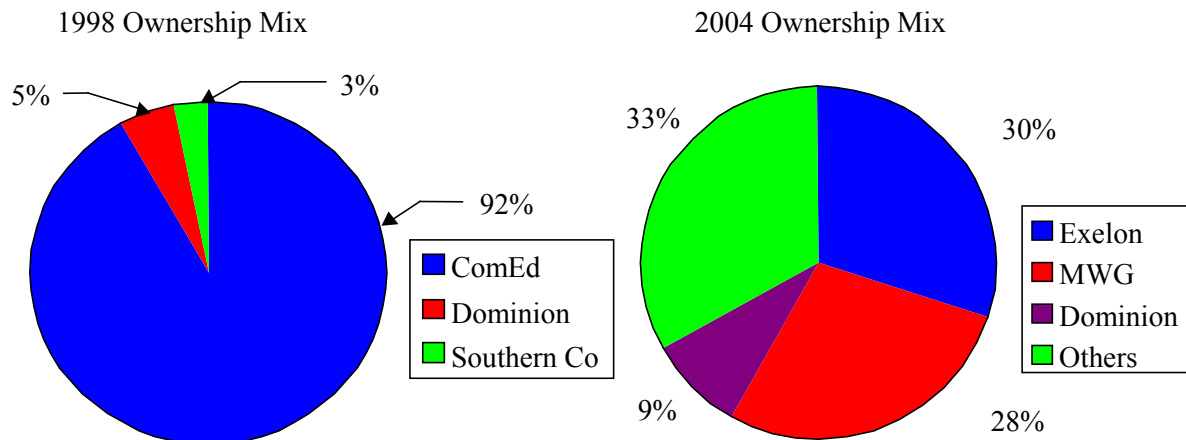
A. Although the amount of load represented by this customer group is large, as we stated before, the actual number of customers is only 373. This means that the average energy revenue per customer are very large, making this segment ideally suited for a direct sales channel. The competitive intensity in this segment is also naturally strong, because marketing costs are relatively low compared to the profit margins on a per customer basis. Other related customer costs such as metering, billing, credit, and account management also benefit from the same economies of scale. By competitive intensity, we are referring to the number of motivated sellers, which include not only wholesale

generators but also power marketers, brokers, and retail marketers, and the extent to which available supply exceeds demand. Because of this competitive intensity, it is logical to expect competitors to continue their marketing efforts with large commercial and industrial customers. Customer needs, while likely to vary on an individual basis, are well known because the customers explicitly state them, either verbally or within an RFP. In general, there is much more information known up front about the customer's usage pattern because interval recording meters tend to be standard for this size customer, load factors are higher (and therefore there is more off-peak consumption), expected loads are more predictable, and there is less sensitivity to weather. This makes this customer segment a particularly attractive one from a RES's perspective.

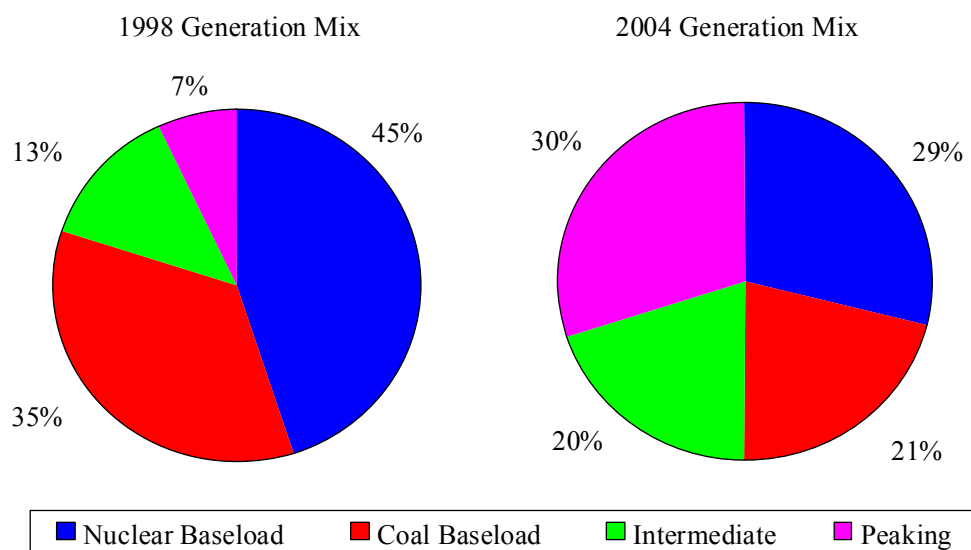
Q. Please describe the current ownership structure for generation within ComEd's service area.

A. Since restructuring began in 1999, there have been two noticeable changes in the Northern Illinois generation marketplace. First, generation is now owned by many different entities. In 1999, ComEd owned 92% of the generation in its control area. Today, ComEd has divested itself of generation. It is projected that by the end of 2004 Exelon will only own 30% of the generation in the control area (with Dominion owning 9% and Midwest Generation owning 28%) and there will be at least a dozen entities overall that own generation in the service territory.

159 This is illustrated in the following charts:



160 Second, there has been a significant increase in intermediate and peaking generation
161 facilities. In 1998, 80% of the capacity mix was baseload. By the end of 2004,
162 approximately 50% of the capacity will be baseload, 20% will be intermediate capacity,
163 and 30% will be peaking capacity. This is shown below:



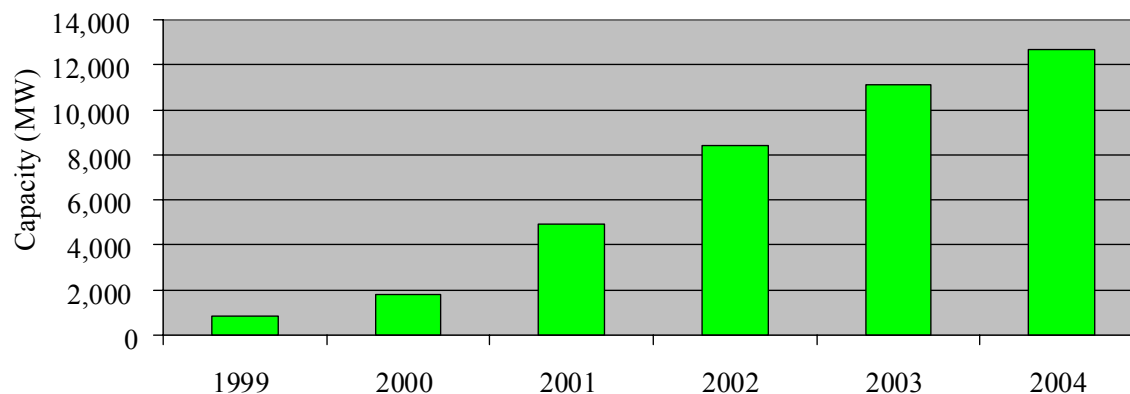
164 The development of the wholesale generation marketplace in Northern Illinois has been
165 very encouraging. The addition of new intermediate and peaking capacity has resulted in
166 a more balanced portfolio of types of generation to meet customer load. In addition,

there are various parties that own different types of generation that will be available to meet the needs of customers in Northern Illinois.

Q. Specifically, how has Independent Power Producer (“IPP”) generation developed in ComEd’s service area?

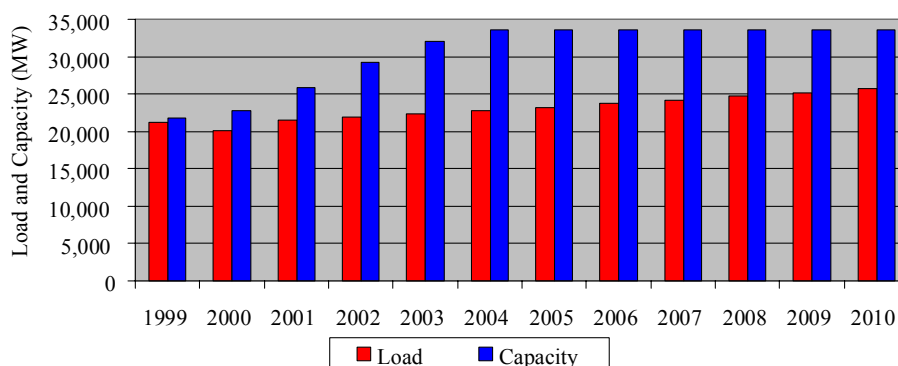
A. Overall, there has been tremendous growth in the construction of new, independently owned generation in ComEd’s service area. This growth that has outpaced the corresponding demand increase during the same time period. ComEd was instrumental in encouraging this development by identifying high potential sites for new plants, streamlining interconnection processes, and working closely with developers. This development began in 1999 shortly after ComEd announced locations within its service territory where it would be advantageous for new power plants to be developed. Approximately 5,000 MW of new generation facilities were constructed in Northern Illinois between 1999 and 2001, and an additional 3,500 MW is expected to be operational by the end of 2002. Approximately 4,300 MW of expected generation, above and beyond the previously mentioned 3,500 MW, is in the queue. This is ComEd’s estimate of what will actually be built and become operational by the end of 2004, not simply the sum of the announced projects.

184 This is shown in the following graph:



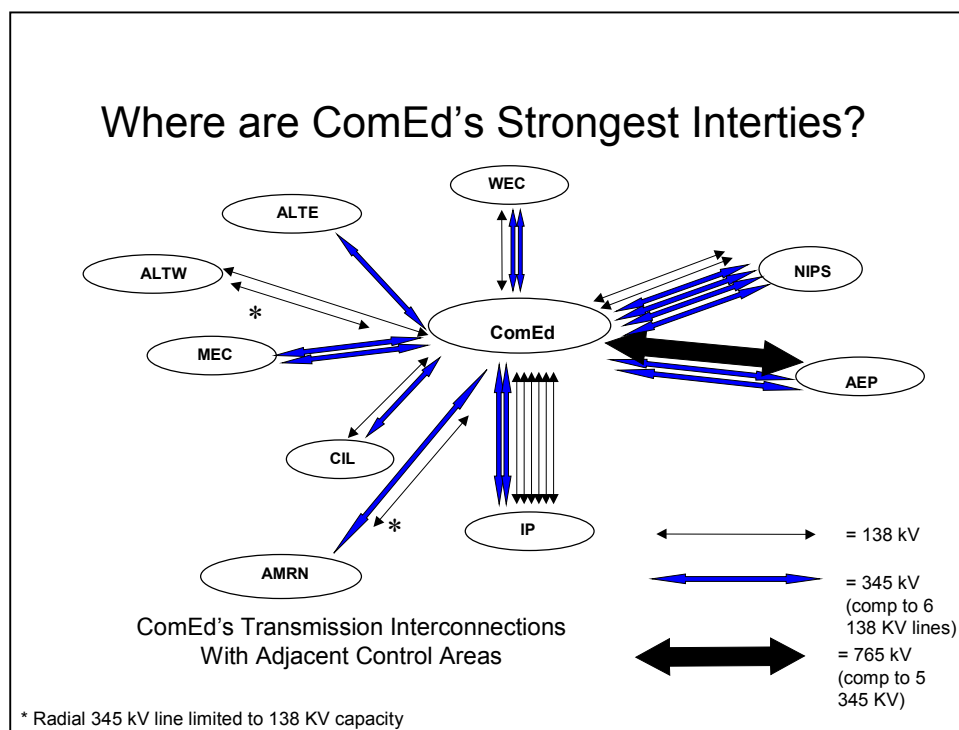
185 **Q. Please explain how this generation capacity compares to current and expected load**
186 **requirements in the ComEd Control Area?**

187 A. The expected peak demand for the ComEd system for 2002 is 21,900 MW. ComEd's
188 peak demand is expected to grow between 1.5% and 2% annually through 2010 when the
189 peak demand is forecasted to reach 25,700 MW. The current level of 29,000 MW of
190 generation in ComEd's service territory is expected to grow to 33,000 MW by the end of
191 2004. As shown below, the existing generation and the new IPP facilities expected to be
192 built in the ComEd service area will therefore be more than sufficient to meet the peak
193 demand for the ComEd system for many years into the future.



Q. To what extent do the suppliers to customers in the 3MW and over group have access to resources outside the ComEd service area?

A. Demand from customers in ComEd's service area can be served from resources throughout the region, not just those in ComEd's control area. ComEd is interconnected to nine other utilities that are in turn interconnected to other utilities in the Eastern Interconnect. ComEd is interconnected to other MAIN members to the north and south, to MAPP utilities to the west, and to ECAR utilities to the east. The following chart illustrates these relationships:



Currently there is more than adequate generation in the combined areas of MAIN, MAPP, and ECAR to meet the demand of the customers in the region. Specifically, there are approximately 230,000 MW of combined resources to meet the projected combined peak demand of 182,000 MW. Although demand is continuing to grow, new resources are being added as well. Past wholesale energy prices and the efforts of the utilities to

promote interconnection of new generation facilities to their systems have encouraged new investments in the generation facilities throughout the region. In addition to the generation expected to come on-line within the ComEd control area, it is expected that an additional 1,350 MW will become operational within MAIN by the end of 2004. Given the significant activity of IPPs, the long-term reserve margins in MAIN are expected to meet or exceed the recommended range of 17 to 20% for the ten-year planning horizon. The MAPP and ECAR utilities have also seen a significant increase in construction of new generation. In addition to the 5,000 MW of new generation that has been added in those regions since 2001, it is expected that another 10,000 MW will be added by 2005.

Market prices, demand for new generation, enhanced facilitation of new generation interconnections with utilities, and the development of RTOs can be expected to provide ongoing incentives for the construction of new generation in the industry. We note, however, that suppliers often prefer to procure power and energy from sources close to the load and there is adequate capacity within ComEd's control area to ensure that the 3 MW and above customer group has ongoing access to reasonably priced supply.

Q. Can you explain what you mean by the term "control area," as used in your last answer?

A. "Control area" is an electrical system bounded by interconnection (tie-line) metering and telemetry. A utility controls generation directly to maintain its interchange schedule with other control areas and contributes to frequency regulation of the interconnection. The important distinction is that a control area is defined by electrical metered values. The boundaries are not necessarily physical. In general, ComEd's control area does overlay

229 ComEd's service area. ComEd has, however, "transferred" (via computer) loads and
230 generators into and out of the ComEd control area.

231 **Q. How do you estimate how much power can be imported from other control areas?**

232 A. One of the ways ComEd makes such an estimate is to look at simultaneous import
233 capability. This refers to the amount of energy at a specific load level that can be reliably
234 transmitted at the same time into a control area from a variety of generation sources
235 external to the control area. It is limited to transactions from outside the control area and
236 does not account for intra-control area resources. This value should not be interpreted as
237 allowing for transfer from any single source. Rather it is an estimate of the capability of
238 the entire network based on an assumption of a pattern of imports. The simultaneous
239 import capability gives a general idea of how much load in ComEd's territory can be
240 served from the sources outside the territory.

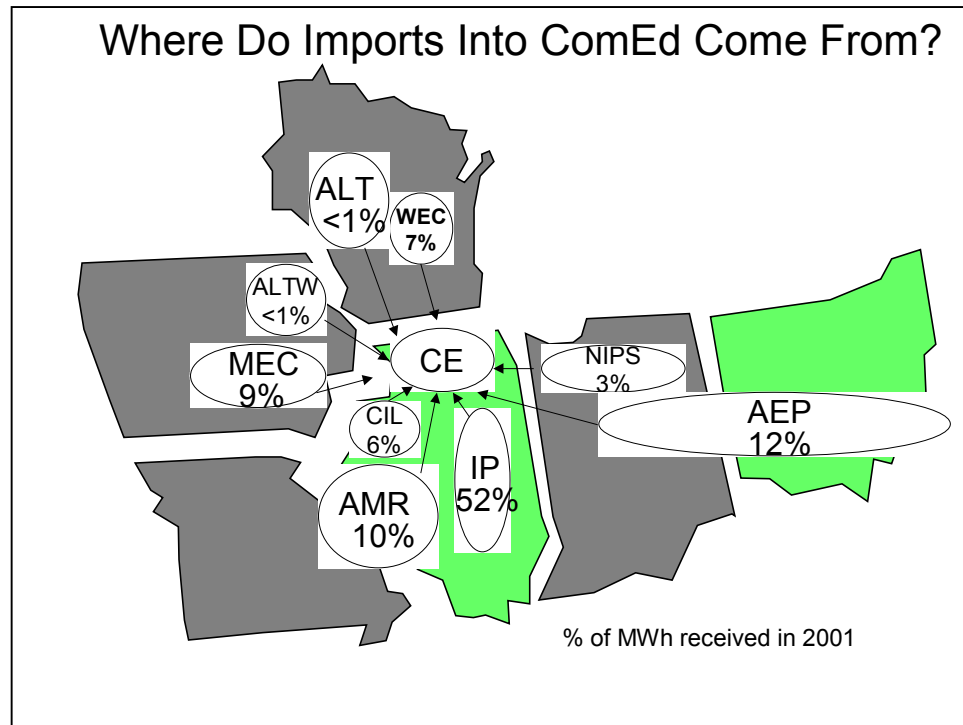
241 It is not appropriate to do a comparison of the total load in ComEd's control area to the
242 amount of import capability in order to determine adequacy. Rather, as ComEd has done
243 for years, the amount of import capability should be added to the predicted available
244 generation within the ComEd control area in order to determine if there are sufficient
245 resources to serve the load.

246 By way of illustration, however, ComEd's Interchange Planning Group recently ran a
247 study to estimate the simultaneous import capability for the ComEd system based on the
248 predicted summer conditions for 2003. The study concluded that simultaneous import
249 capability would be approximately 4,700 MW.

Q. Does ComEd import as well as export into and out of its control area?

A. ComEd imports as well as exports through its established transmission relationships. The diversification of import supply assures supply for the entire expected load.

The following graph illustrates these relationships:



Q. Explain how you expect RTO development to affect the development of competition for retail energy services in ComEd's control area.

A. The development of RTOs should encourage more efficient use of the transmission grid and increase transmission capacity into the ComEd control area. However, on a real-time basis, the ComEd transmission system has not been significantly internally constrained. In fact, of the 931 Transmission Loading Relief ("TLR") events called in 2001 on the Eastern Interconnection only one was called to protect ComEd facilities during an emergency when a cross-arm on a ComEd 345kV transmission line failed. The one TLR

262 called on ComEd's system resulted in curtailments of transactions on non-firm
263 transmission service.

264 **Q. Has ComEd joined an RTO?**

265 A. On May 28, 2002, ComEd notified the FERC that it will join the PJM Interconnection,
266 LLC ("PJM") as a member of an independent transmission company ("ITC") or
267 independently should the ITC formation effort fail. On July 15, 2002, ComEd notified
268 FERC that American Electric Power ("AEP"), ComEd and Dayton Power and Light
269 ("DPL") have agreed to form an ITC, with National Grid as the managing member, under
270 PJM ("PJM GridCo").

271 **Q. Why did ComEd decide to join PJM rather than the Midwest ISO ("MISO")?**

272 A. ComEd believes that PJM is the best option for both the company and its customers for
273 several reasons. First, not only do ComEd's primary wholesale electric power energy
274 suppliers lie to the east, but the greatest amount of interconnection capacity to the ComEd
275 control area is with its eastern neighbors. Second, electric power and energy that can be
276 imported during emergencies is available from the east. Third, PJM has a mature
277 marketplace with market structures already in place that are similar to what FERC has
278 proposed in its current standard market design for RTOs. This is explained further in the
279 testimony of John McCawley.

280 **Q. When does ComEd expect to be operating as part of PJM?**

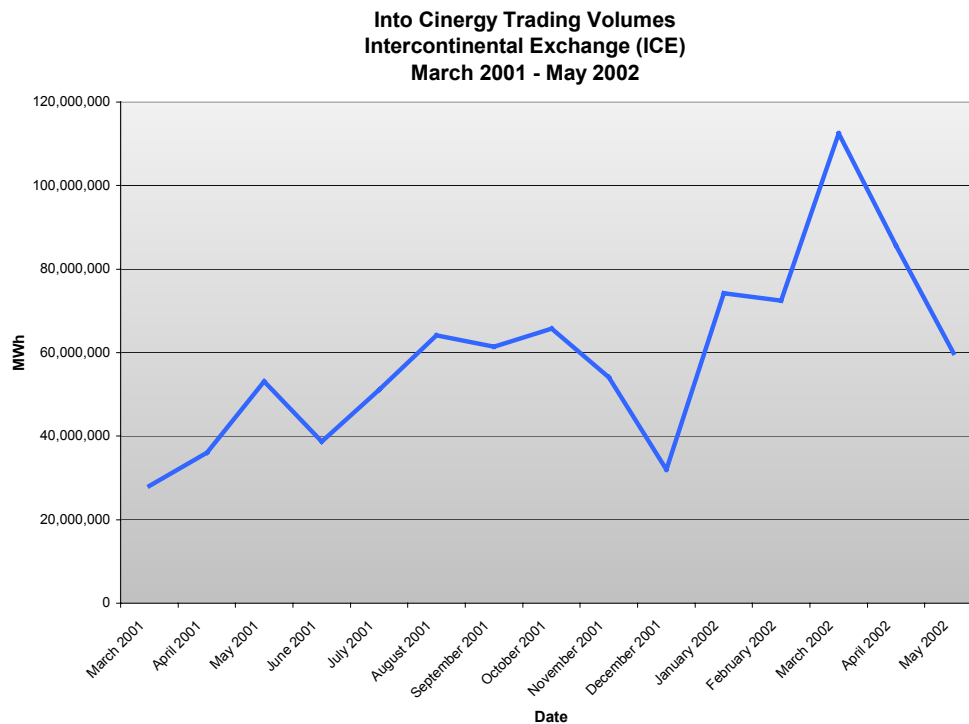
281 A. ComEd expects to turn over control of its transmission facilities to PJM by the end of
282 2002, with full market implementation occurring in 2003.

283 **Q. Describe, generally, how retail suppliers procure power and energy to meet their**
284 **customer's needs.**

285 A. Retail Electric Suppliers have several approaches they can use to procure supply for their
286 customers. Just as wholesale suppliers seek to optimize the value of their supply
287 portfolio, RESs also have load portfolio options. They can put their entire load portfolio
288 out for competitive bidding; they can disaggregate it into discreet elements to seek more
289 granular bids; or they may choose to employ some combination of these two strategies.
290 Each approach carries different amounts and types of risk, and therefore each RES is
291 likely to pursue a strategy unique to itself. The approach chosen may depend on whether
292 the RES has, either by affiliation or by alliance, an exclusive relationship with a
293 wholesale marketer who performs the portfolio management function. In general, the
294 wholesale marketer takes responsibility for making daily purchases or unit specific
295 product decisions, as well as for making transmission arrangements for power flows into
296 ComEd's control area. The RES would normally maintain responsibility for procuring
297 network transmission service within ComEd's service area.

298 When buying from a power marketer, a RES will be served from that marketer's own
299 power portfolio which will likely represent a range of owned and purchased resources.
300 These marketers have the capability, through their own supply portfolio, to structure a
301 variety of wholesale products for sale to RESs. While block energy sales are traded at
302 the wholesale level, day ahead load shaped products, and full requirements supply are
303 also available to satisfy the retail load profiles of RESs. Within the relevant regional
304 areas (MAIN, MAPP, and ECAR), there are numerous power marketers who are actively
305 trading peak period firm power and energy. Many of these trades are converted into

physical delivery, and are supplied by generation resources within the region. The following table shows the volume of trading activity at the Cinergy hub as reported by the Intercontinental Exchange (“ICE”):



This trading volume highlights the fact that RESs in Illinois have a choice of wholesale suppliers both within and outside the ComEd control area. These suppliers compete for base, intermediate, and peaking capacity to serve the retail load shape requirements of the RESs.

Q. Why does it make sense to encourage those customers with loads of 3MW or greater to buy electric power and energy from the competitive market?

A. This group has been actively surveying their options and more than half have chosen to switch from bundled rates. These customers are able to negotiate individually with retail

energy suppliers. Virtually all of them are currently purchasing transportation gas, so they have experience with unbundled energy purchasing and do not look solely to the utility for commodity energy supply. This experience allows them to make purchase decisions which balance price against various levels and types of risk. Finally, because large customers have a broad range of needs, competition for this segment will encourage product innovation and competitive approaches from suppliers. The result is likely to be an increased focus at the retail level on the value-added side such as demand side services, reliability enhancements, and pricing options, terms and conditions.

At the wholesale level, limiting the tariffed options available to this customer group will have positive effects for competition as well because the amount of load served by competitive retail suppliers will increase. With additional buyers for all types of generation (base-load, intermediate, and peaking), new wholesale products targeted to retail marketers are likely to develop. In addition, as load migrates from ComEd to RES supply, capacity will be freed up at the wholesale level. The recent release of capacity by ComEd is an example of this effect. Incrementally, over 2,600 MW of supply previously sold to ComEd, is now available to competitive wholesale and retail marketers.

Q. Please explain why you believe that declaring Rate 6L competitive for the 3MW and greater customer segment will lead to new competitive efforts to promote value-added services.

A. Although price is still the dominant factor for these customers, this segment is also the most attractive for value-added services. There are unique customer needs in this segment that may be satisfied by the RES. The customers do not “bundle” these services with their energy purchase (at least today), but they are willing to consider buying

additional services beyond simply the commodity. As RESs continually seek to differentiate themselves from their competitors, they foster innovation and creativity around all the ways to create value for customers. Examples include:

- Demand Responsiveness. ComEd has experienced a high level of demand response to price signals within this segment. Of the total load on bundled services (900 MW), 235 MW of load is discretionary and historically has participated in curtailable or interruptible programs. This creates the opportunity to tailor supply offerings with demand response to lower both the customer's and the RES's supply cost. It also creates an opportunity to work with the customer "beyond the meter" on cost reduction strategies.
- End use energy services. These include: performance contracting in some segments; distributed generation for reliability; cogeneration where there are steam loads; energy management controls and monitoring; power quality monitoring and mitigation; and on-site electrical distribution construction and maintenance. Prior to their exit from the market, Enron Energy Services included such services in their value proposition.
- Multiple commodity sales. The majority (if not all) of these customers purchase their gas competitively. RESs have an opportunity to tailor risk management products on both commodities to the customer's risk tolerance. In addition to multiple commodities, many of these customers also have multiple facilities. This creates a potential for a variety of billing services including bill auditing and verification, consolidated billing, and customized payment arrangements.
- Outsourcing. A supplier must first establish sufficient credibility before they can successfully offer these services, but there are a variety of outsourcing approaches for large customers. On the commodity supply side, customers may outsource their energy procurement. In this case, the RES acts as agent for the customer, obtaining

366 the best available commodity prices for the customer, whether they are able to self-
367 supply or not. There is a growing interest in outsourcing infrastructure maintenance,
368 such as electrical and mechanical systems. Finally, some customers may find
369 outsourcing the ownership, operation, and maintenance of energy conversion systems
370 attractive, such as in district cooling or cogeneration applications.

371 **Q. What other actions could the Commission take to promote such competition?**

372 A. We believe another action the Commission should take is to limit the current availability
373 of the PPO rate offered under Section 16-110 of the Restructuring Act. We will be
374 proposing such limitations in the Market Value Index (“MVI”) workshops and
375 proceedings that are scheduled for this fall. The PPO was originally created to provide a
376 safeguard for customers. For larger customers, the PPO initially provided protection in
377 case the actual market price of electric power and energy was greater than the market
378 value credit in the CTC. The concern was that the sum of the unbundled charges would
379 exceed the current bundled service rate, leaving these customers without a viable market
380 based option. For smaller customers, the PPO provided a means to acquire market priced
381 energy, even if RESs did not actively promote their services to this segment, or if
382 adequate supplies were not available. In both segments, the PPO assured customers the
383 opportunity to capture any savings associated with the mitigation factor credit in the
384 CTC. In addition, the PPO also protected against any possibility of market price
385 manipulation on the part of utilities, and created a competitive benchmark against which
386 RESs would have to compete. As a final “safety net,” customers were allowed to
387 “assign” their electric power and energy purchases under the PPO to a RES, who in

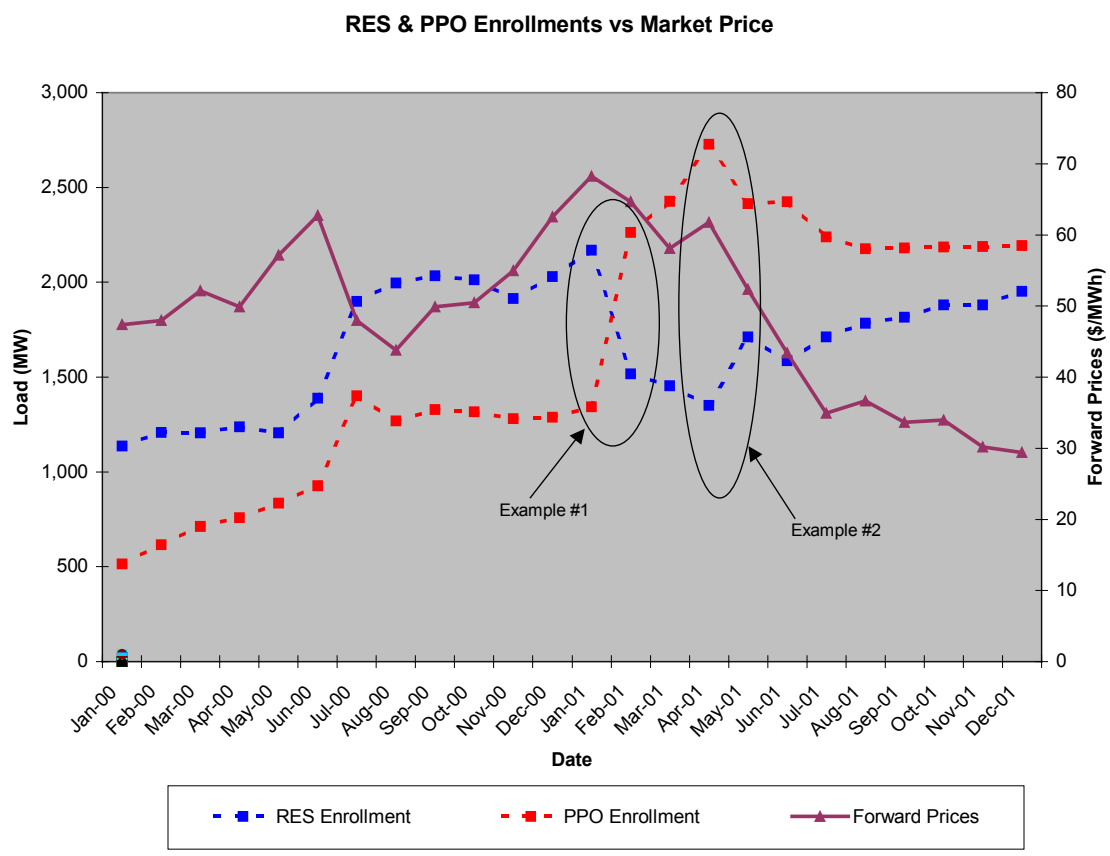
effect, would become the customer's agent. This assignment option, however, was never intended to be part of the RESs' permanent supply strategy.

Today, the PPO impedes the development of retail competition and provides an unneeded "free call" at a fixed price. While the PPO may have been a useful tool for kick-starting initial market development and allowing easy entry into the market, it is not a good situation going forward. Each year, as the amount of load being served by competitive suppliers grows, the utility faces increasing risk that the load can be shifted back to the utility with relatively short notice. To manage that risk, utilities must lock-up more generation supply than would otherwise be needed. This unnecessarily limits the amount of supply available for retail competitors. Continued reliance on the PPO, or tariffs like Rate 6L, as a supply option slows the pace of marketplace development and does not further the General Assembly's stated goal of a competitive transition.

Q. Can you provide an example of how RESs can use the availability of tariffed rates as part of a supply strategy?

A. On the following chart, we show data for calendar years 2000 and 2001 that compares RES and PPO enrollment rates (in MW) vs. the monthly forward market prices reported by ICE for the same period. This chart illustrates two examples of how the PPO can become an integral part of RES supply strategies in a way that is detrimental to the development of the competitive market. Our purpose here is not to find fault with the behavior of the RESs. On the contrary, we believe this indicates the predictable behavior of marketers making rational economic decisions based on all available information and options. However, the result is the imposition of significant costs and risks on the utility

410 and the removal of a significant amount of capacity that would otherwise have been
411 available for sale in the competitive market.



In example #1, as peak period forward prices climbed from \$44 to \$68/MWh over a five month period in 2001, RES enrollment took a steep dive; 650 MW in the first month (January 2001) followed by an additional drop of 170 MW over the next 60 days. Simultaneously, the PPO enrollments rose a dramatically (by 920 MW) in one billing cycle. It is important to note that this event occurred midstream between market value energy charge (“MVEC”) sets, which are established as provided in ComEd’s tariffs, and that total delivery service enrollment remained almost constant. The only explanation for this is that RESs temporarily moved their customers to the PPO in order to resell that power at a higher priced wholesale opportunity. From ComEd’s perspective, we saw an abrupt increase in supply requirements at a time market prices were at a recent high. This is a risk that can only be hedged by holding back capacity from the marketplace in the event of large load swings.

Example #2 illustrates the opposite phenomena in 2001. This occurred immediately following the announcement of a new MVEC, and is admittedly somewhat less pronounced. In this case, market prices fell dramatically from \$62 to \$35/MWh over a four-month period. In the first month following the MVEC set (with falling forward price projections), there was a sudden drop in PPO enrollment by 310 MW and a corresponding increase in RES enrollment of 360 MW. This is simply load that is being shifted from PPO supply to RES self supply for economic reasons. Again, while totally rational behavior on the part of the RESs, this creates serious planning problems for ComEd causing more capacity to be held in its portfolio to manage this risk.

It is ComEd’s belief that the tariffed rates were not intended by the General Assembly to serve this purpose. It is one of the main reasons why ComEd believes its proposal is

critically important for maintaining the momentum in developing a truly competitive market in Illinois. The competitive market as a whole benefits through more certainty of how risks and obligations are to be allocated amongst the participants. It does not serve the interests of customers, generators, suppliers, or utilities to have mechanisms that impose this amount of risk, and therefore result in costs that eventually need to be recovered from the market as a whole. We believe the market will develop most efficiently if the customers who have already chosen an alternate supplier continue to be served by a maturing competitive market, as opposed to short-term artificial pricing incentives.

It is for similar reasons we believe Exelon chose to offer a full requirement wholesale product to RESs this year. By doing so, power will continue to flow to customers through their RESs, which is much more consistent with the goals of developing a growing, stable, and sustainable competitive market. It would otherwise stifle market development and erode confidence if customer supply continually to be moved back and forth between tariffs and competitive supply. While ComEd accepts its obligations as the default provider during the transition period, our desire is to see a vibrant real market by the end of the transition period. This is why at this time the company believes Rate HEP – Hourly Energy Pricing (“Rate HEP”) is a better bundled service rate than Rate 6L for these customers if they do not make a competitive choice. It does indeed place some amount of the market risk on the customers, but they are the customers best positioned to manage that risk, and it creates a meaningful value proposition for the RESs.

456 **Q. Please explain how the availability of ComEd's Rate HEP in lieu of Rate 6L is likely**
457 **to affect the development of competition.**

458 A. Compared to Rate 6L or the PPO, Rate HEP provides RESs with a true value proposition,
459 creates customer motivation to work with competitive suppliers, and reduces utility risk
460 of having to procure capacity. Under this approach, RESs can provide customers with a
461 legitimate risk management function and can tailor their offering to match individual
462 customer risk tolerance.

463 Experience with real time pricing under ComEd's Rate RTP—Real Time Pricing
464 (Experimental) and Rate HEP indicates that while certain customers can make spot
465 pricing work to their advantage, fixed pricing is much more popular. ComEd's risk is
466 also reduced under this service offering because it only passes the spot price through, it is
467 no longer offering a free call option and assuming the related market price risk.
468 Reducing utility risk in this manner should reduce the costs that might eventually be
469 borne by those customers with fewer competitive options.

470 **Q. Please review why it is important to declare service to these customers to be**
471 **competitive now.**

472 A. This customer segment has been actively making competitive choices. With this
473 declaration, ComEd will be able to continue to release generation capacity to the
474 competitive market because it will not have to consider long-term supplies for this block
475 of load. Customers will become increasingly aware of competitive suppliers and their
476 offers, knowing that these suppliers will be the source of risk management services in the
477 long term. Making this declaration now will send a clear signal to competitive suppliers
478 that there will be a viable value proposition for them to make, and will provide incentives

479 for them to become increasingly skilled in wholesale power purchasing. The declaration
480 will help to ensure that a sustainable market for a greater number of customers is
481 developed by the end of the mandatory transition period.

482 **Q. Does this conclude your testimony?**

483 A. Yes.